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Fuel Focus

Understanding Gasoline Markets in Canada and Economic Drivers Influencing Prices

Volume 7, Issue 24

December 14, 2012

Canada

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National Overview

Canadian Retail Gasoline Prices Decreased 4 Cents per Litre from Last Week

For the week ending December 11, 2012, Canadian average retail gasoline prices decreased from the previous week by nearly 4 cents per litre to $1.17 per litre—the lowest level since December 2011. Since the last report two weeks ago, average Canadian retail pump prices decreased by 5 cents per litre.

Diesel fuel prices remained unchanged at $1.26 per litre compared to the previous week. Furnace oil prices rose slightly by 0.2 cent per litre from the previous week and averaged $1.17 per litre.

The average decrease in retail pump prices in Canada reflected the decline in North American wholesale gasoline prices and lower world crude oil prices.

Recent Developments

- **Oil Market Report**: Oil futures prices fell to four-month lows in late October and early November amid mounting pessimism over the global economic outlook. Prices fell further after the U.S. presidential election on concerns over the so-called US 'fiscal cliff' looming at year-end, with Brent last trading at $109 per barrel and WTI at $86 per barrel. (Source: International Energy Agency, Oil Market Report, http://omrpublic.iea.org/)
- **OECD's Economic Outlook**: According to the Organisation for Economic Cooperation and Development's (OECD) latest *Economic Outlook* the global economy is expected to make a hesitant and uneven recovery over the next two years. Decisive policy action is needed to ensure that stalemates over fiscal policy in the United States and continuing euro area instability do not plunge the world back into recession. (Source: OECD, http://www.oecd.org/newsroom/globaleconomyfacinghesitantandunevenrecoverysaysoecd.htm)
- **Heating Oil and Gasoline Price Winter Outlook**: Canadian retail prices for heating oil averaged $1.19 per litre in October 2012, 5.8 per cent higher than October 2011. As of October 2012, distillate levels (which includes heating oil) in the U.S. Northeast were 40 per cent below the five-year average, causing an upward price pressure for heating oil. (Source: NEB, http://www.neb-one.gc.ca/clf-nsi/rnrgynfmtn/nrgyrprt/nrgytlk/tlkwntr2012/crdlptrlmprdcts-eng.html)

This is the last issue of Fuel Focus for this year. The 2012 Annual Review will be released on January 11, 2013 and the regular bi-weekly issues will resume on January 25, 2013.

Figure 1: Crude Oil and Regular Gasoline Price Comparison (National Average)

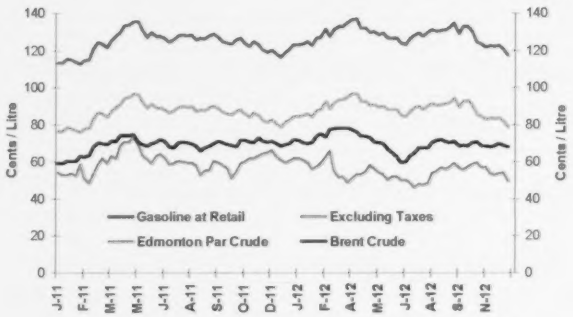
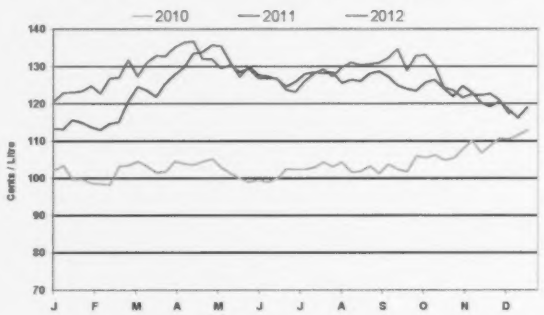


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

	Week of:	Change from:	
¢/L	2012-12-11	Previous Week	Last Year
Gasoline	117.3	-3.6	-1.0
Diesel	125.8	0.0	-5.8
Furnace Oil	116.7	+0.2	0.0

Source: NRCan

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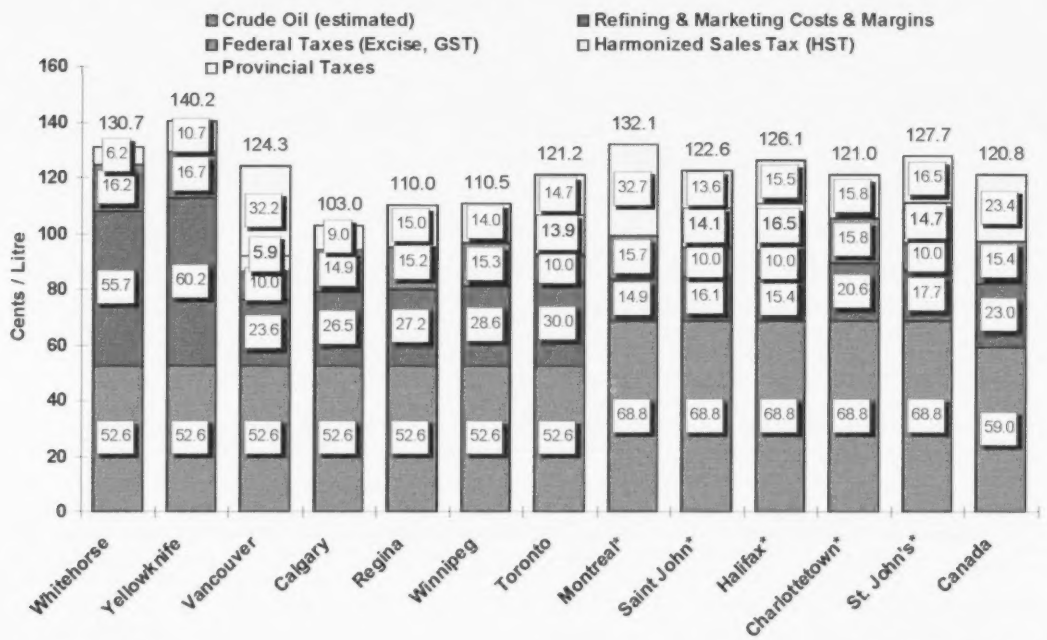
Retail Gasoline Overview

For the period ending December 11, 2012, the **four-week average** regular gasoline pump price in selected cities across Canada was $1.21 per litre, a decrease of 2 cents per litre compared to the previous report of November 30, 2012. Compared to the same period in 2011, the average Canadian pump price is 1 cent per litre higher.

The **four-week average** crude component was 59 cents per litre, a decrease of 1 cent compared to two weeks ago. The crude oil price component of gasoline is 8 cents per litre lower than at the same time last year and accounted for less than half of the pump price.

At the national level, refining and marketing costs and margins decreased by 0.2 cent per litre to 23 cents per litre from the previous report two weeks ago. However, this is 8 cents per litre higher compared to the same period last year.

Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (November 20 to December 11, 2012)



Source: NRCan

** Regulated Markets*

Crude Oil Pipeline Proposals

Canadian crude oil is transported across North America via a complex network of pipelines. Many oil pipeline systems are at or near capacity and, at times, under apportionment. As a result of these circumstances, a number of proposals emerged to provide additional pipeline capacity to transport crude oil and to provide additional supplies of diluent required to support growing oil sands operations (see the map in the Supplement on page 6).

This additional pipeline capacity, if approved, will enhance access to markets and increase market penetration of Canadian crude oil. Stronger refinery margins could help some projects, but slowing demand for refined petroleum products in the U.S. could affect refinery investments.

Wholesale Gasoline Prices

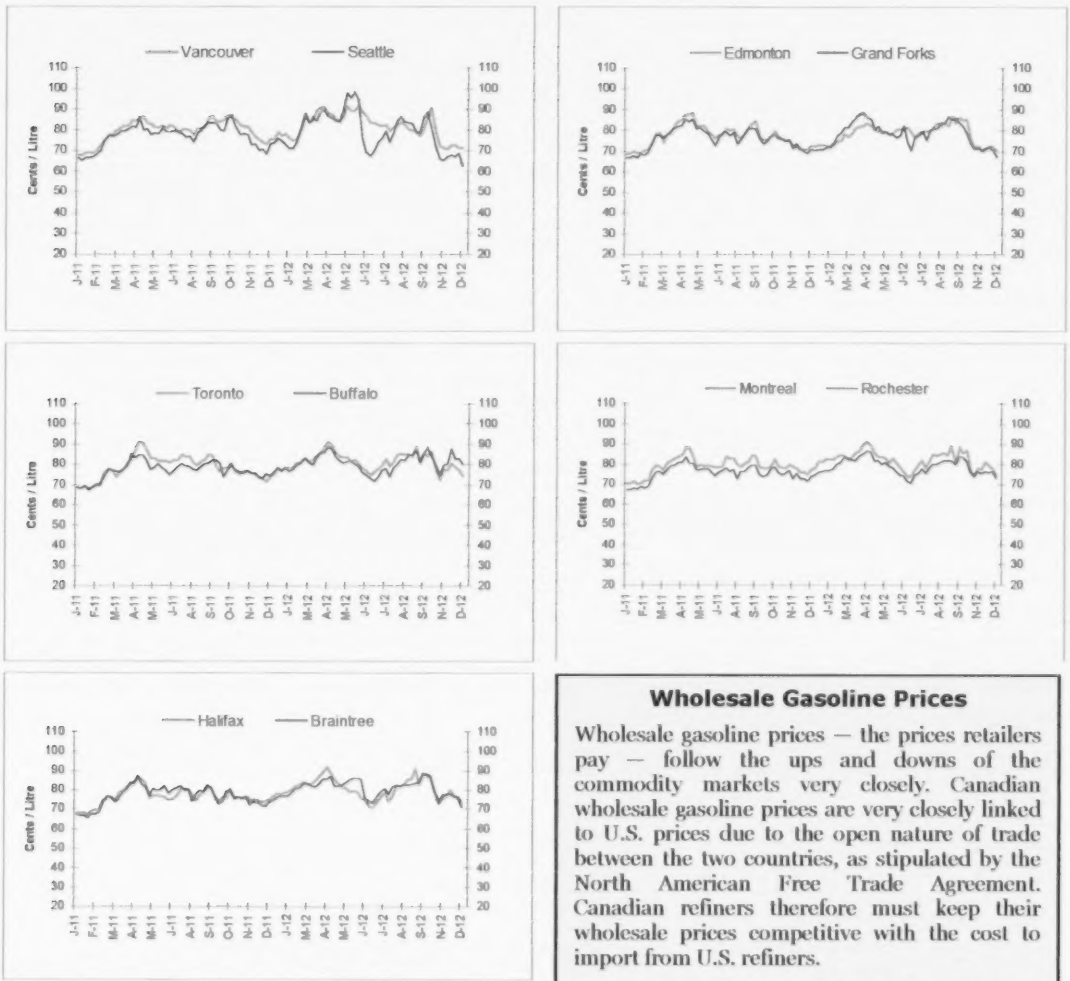
Wholesale gasoline prices, compared to the previous week, continued to decline in most centres for the **week of December 6, 2012**. Overall, price changes ranged from a decrease of 6 cents per litre to an increase of less than 1 cent per litre.

Wholesale gasoline prices in Eastern markets, in both Canada and the United States, decreased from 2 to 5 cents per litre, compared to the previous week, ending the period in the 71 to 80 cent-per-litre range.

Wholesale gasoline price changes in Western centres ranged from a decrease of 6 cents per litre to an increase of less than 1 cent per litre and ended the period between 62 and 71 cents per litre.

Compared to last year, wholesale price changes in both Canadian and American selected centres ranged from an increase of 7 cents per litre to a decrease of 8 cents per litre.

Figure 4: Wholesale Gasoline Prices
Rack Terminal Prices for Selected Canadian and American Cities Ending December 6, 2012
(Can ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide

Wholesale Gasoline Prices

Wholesale gasoline prices – the prices retailers pay – follow the ups and downs of the commodity markets very closely. Canadian wholesale gasoline prices are very closely linked to U.S. prices due to the open nature of trade between the two countries, as stipulated by the North American Free Trade Agreement. Canadian refiners therefore must keep their wholesale prices competitive with the cost to import from U.S. refiners.

Source: Petro Canada, *Understanding Wholesale Prices*

Gasoline Refining and Marketing Margins

Four-week rolling averages are used for gasoline refining and marketing margins.

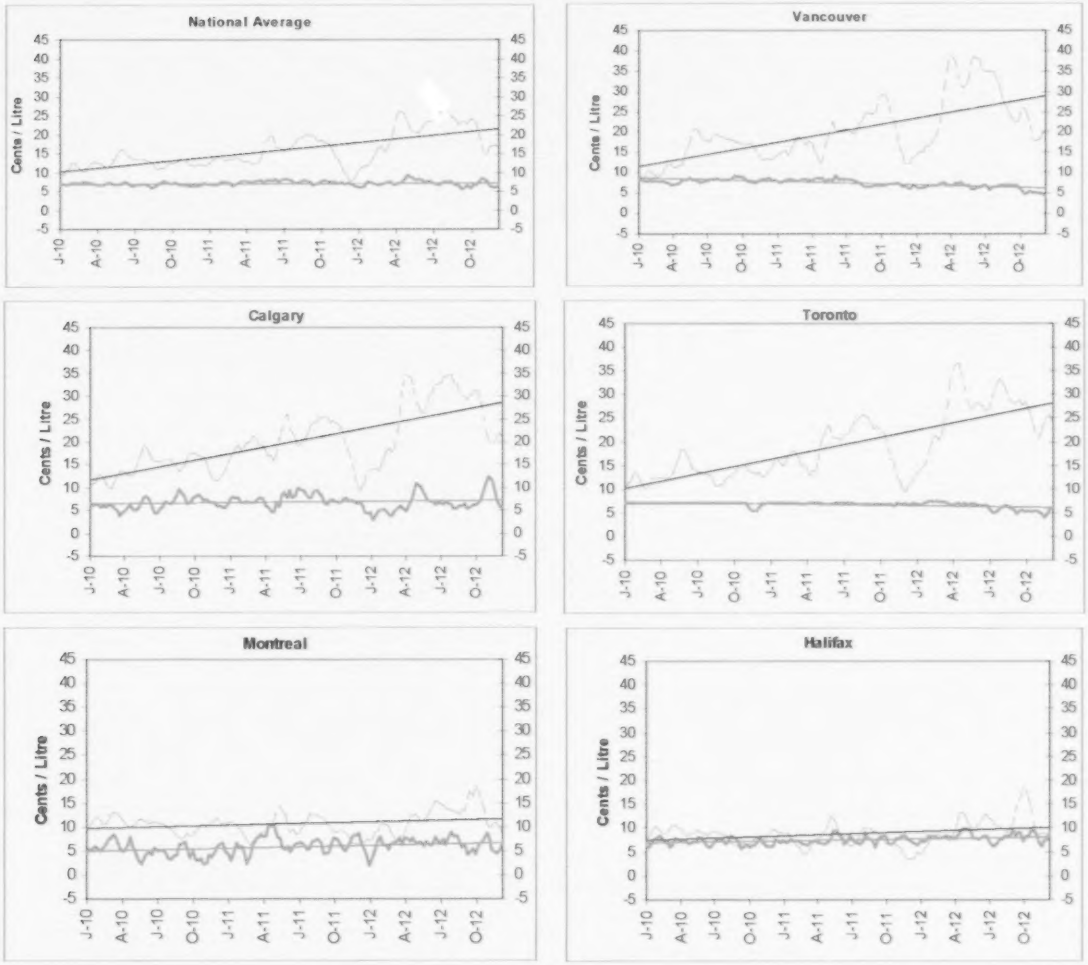
On average, refining margins this week declined by 1 cent per litre to 16 cents per litre at the national level compared to the last report on November 30, 2012.

In general, both refining and marketing margins are influenced by specific market conditions, mainly due to changes in product supply and demand balances.

Nationally, the marketing margin hovered at around 7 cents per litre.

This margin, which tends to fluctuate depending on local market conditions, represents the difference between the pump price and the price paid by the retailer to purchase the gasoline and also serves to pay for the costs associated with operating a service station.

Figure 5: Gasoline Refining and Marketing Margins
Four-Week Rolling Average Ending December 11, 2012
------- Refining Margin ——— Marketing Margin



Source: NRCan

Crude Oil Overview

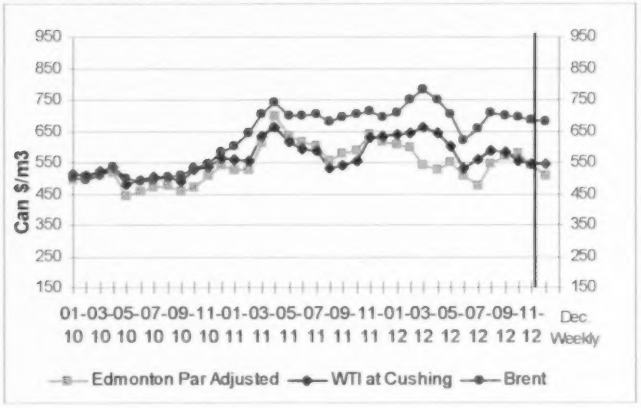
Global Crude Oil Prices Decline

For the week ending December 7, 2012, prices for the three marker crudes averaged between $509/m^3$ and $678/m^3$, (US$82 to US$109 per barrel). Compared to the previous week, prices declined in the range of $1/m^3$ for WTI to $29/m^3$ for Edmonton Par. The price gap between the WTI and Brent crude oil has narrowed to US$21 per barrel for the week ending December 7, 2012.

World crude oil prices declined with lower oil demand expectations. As the largest oil consumer in North America, a sluggish U.S. economy tends to push prices down. Furthermore, upcoming budget worries in the U.S., high unemployment rates and the eurozone economic weakness exacerbate the possibility of oil demand growth, which in turn, helps moderate the rise in crude oil prices.

A new U.S. Energy Information Administration assessment of its *Annual Energy Outlook 2013*, indicates a faster rise in U.S. oil production and less U.S. oil consumption. The report indicates that while domestic crude oil production, particularly from shale and other tight oil formations, is expected to increase, gasoline consumption is expected to decrease both in absolute terms and as a share of total transportation fuel demand, due to the introduction of more stringent corporate average fuel economy standards as well as demographic and economic changes.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2012-12-07		Change From:			
			Previous Week		Last Year	
	$Can/$m^3$	$US/bbl	$Can/$m^3$	$US/bbl	$Can/$m^3$	$US/bbl
Edmonton Par	508.97	81.62	-29.40	-4.53	-122.24	-17.24
WTI	545.68	87.51	-1.19	0.00	-93.47	-12.59
Brent	677.96	108.72	-12.29	-1.73	-18.33	-0.33

Source: NRCan

Canada Leading Supplier of Crude Oil to the U.S.

According to the U.S. Energy Information Administration (EIA), U.S. imports of Canadian crude oil rose to record levels during the first eight months of 2012, with Canada accounting for a growing share of total gross U.S. imports. The United States is importing more crude oil from Canada, even though the total amount of crude oil America buys from foreign suppliers is falling.

Canada is the largest supplier of foreign oil to the United States, followed by Saudi Arabia, Mexico, and Venezuela. Almost 99% of Canadian oil exports are sent to the U.S. market. Canada accounted for approximately 25% of U.S. crude oil imports in 2011, averaging 2.2 million barrels per day.

The importance of Canadian crude oil to U.S. refiners has increased in 2012, as Canada supplied the United States with a record of nearly 2.5 million barrels per day during January-August 2012, according to the latest oil trade data from EIA. At the same time, total U.S. crude oil imports fell from 8.9 million barrels per day in 2011 to 8.7 million barrels per day through August 2012. As a result, the share of Canadian oil as a percentage of total U.S. oil imports during the eight-month period increased to 28%.

Source: U.S. EIA, Today in Energy, http://www.eia.gov/todayinenergy/detail.cfm?id=8950

Canadian & U.S. Crude Oil Pipelines - All Proposals

Map Source: CAPP, Crude Oil Forecast, Markets & Pipelines, June 2012

Kilometres of pipelines across North America:

490,850 kilometres of Natural Gas Transmission pipelines in the US
3,403,762 kilometres of Natural gas distribution pipelines in the US
293,118 kilometres of crude oil, petroleum and refined products pipelines in the US
825 000 kilometres of oil, refined products, and natural gas pipelines in Canada (gathering, distribution and transmission).
Total length of pipelines in North America = 5 million kilometres.

Source: US Department of Transportation Pipeline and Hazardous Materials Safety Administration and the Canadian Energy Pipeline Association